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sufficient, the black market was in luxuries, and the people, on the whole, were law-abiding. The problem therefore was primarily one for the police. In Austria rations were insufficient, the black market was in necessities as well as luxuries, and the consciences of the people were attuned to God and reason rather than to the law. The problem was thus rather a matter of economics, and in any case the Austrian police force was inexperienced and under strength.

The existence of the black market and the widespread use that was made of it were obstacles to the improvement of the food situation as a whole. The fact that foodstuffs were being sold at such extravagantly different prices made the farmers reluctant to increase their official deliveries. The black-market rates were excessive, but the official rates were beneath world levels and unfairly low for the producer. In spite of the efforts of the authorities, which included the threat of imprisonment, the farmers did little to help. Some of them dealt on the black market, and others found it more profitable to feed grain to their animals than sell it at the official price. During the difficult spring of 1946, the meat deliveries from the provinces to Vienna fell 90 to 100 per cent short of the allocations.

If the attitude of the farmers was neither helpful nor patriotic, it was the ineffectiveness of the whole system that was chiefly to blame. In these circumstances the Austrian Government's own measures to deal with the food problem were slow to show results.

There were two further reasons why the shortage persisted. Additional food supplies were required from abroad. But Austria's traditional sources of supply had been Hungary, Poland, and Yugoslavia, and immediately after the War these countries were not in a position to export foodstuffs. Hungary and Poland later fell increasingly under Russian economic influence. Secondly, Austria had not the resources with which to pay for imports. In terms of exports grain now cost nearly twice as much as before the War, and such foreign exchange as was earned was required to buy raw materials and equipment for industry. A vicious circle was in operation: exports

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was raised successively to 1,600 and 1,700 calories a day. In June 1948 it went up to 1,800, and the following September to 2,100. Between December 1947 and December 1948 black-market food prices fell from 64 per cent to 15 per cent of the figures for January 1946. This meant that it was at last reasonable to devote a smaller proportion of foreign aid to foodstuffs and a greater amount to economic rehabilitation. Of the £8,500,000 provided by Britain, less than £1,500,000 was spent on food, about the same amount on agriculture, £2 million on coal, and over £3 million on the most urgent industrial needs. Of the American Congress aid allocated for the first half of 1948 just under 60 per cent was devoted to food and just under 40 per cent to agriculture and coal, which was of such vital importance to industry.

The administrative responsibilities of the British and Americans in Austria made them highly sensitive to the country's needs. In spite of the obvious drawbacks of the occupation, there were certain advantages for Austria during the first precarious post-War years in the presence of the Western Allies on her territory. Without them the process of rebuilding the administration and economy after the collapse of the Nazi system would almost certainly have been accompanied by even more acute material shortages than those that were actually experienced.

Though the Austrian basic ration did not rise above 1,600 calories a day until November 1947, the minimum physiological needs of the normal consumer have been estimated at 2,160 calories. It might have been expected, therefore, that the results of so long a period of under-nourishment after the strain of the War would have been far worse than they actually were. One reason why they were not has already been mentioned: a large number of people resorted to the black market. But there were two other explanations.

During 1947 there were approximately 5 million Austrians in the rationed, as opposed to the self-supplying, category. Of these only about 2 million were normal consumers in receipt of basic rations. All the rest, either as employees, workers,

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Such conditions, combined with the hardships that have already been described, carried with them the danger of serious unrest, and it is fortunate that a method was worked out in 1947 by which wages as a whole could keep pace with the steadily rising prices. The method, which was used each year between 1947 and 1951, had its good and bad sides. On the one hand, it contributed to the steady and controlled nature of the inflationary process and ensured the harmonious settlement of the wage question. On the other hand, after the first two years, when its effects were predominantly good, it accentuated inflationary tendencies.

The system involved the co-operation of the Government, the trade unions, and the Chambers of Industry, Agriculture, and Labour. The representatives of the employers and the employees in the Chambers and the trade unions worked out, in consultation with the Government, a general agreement covering the prices of basic necessities and the wages of the different classes of workers in all branches of the economy. The proposals were then submitted to Parliament for approval.

This procedure was only possible owing to the spirit of co-operation and conciliation called forth by the emergency. Austria would not have recovered as soon as she did from the post-War economic crisis had her revival been held back by serious industrial disputes, and the political consequences of such disputes would have endangered the country's unity. The Coalition Government fully realized the position, and its broad composition fitted it well for a mediatory role. The employers' representatives and the trade unions were also aware of the dangers. The common sense and intuition of the Austrian people led them to support their leaders.

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The country was fortunate both in the organization of its trade unions and in the nature of their leadership at the time. The fact that the Austrian Federation of Trade Unions had been established on an all-party basis in 1945 was of decisive importance in the price–wage negotiations. It meant that in spite of the Socialist preponderance among union members every party was represented on the workers' side in the dis-

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cussions. Herr Johann Böhm, President of the Federation, revealed himself as one of the big personalities in post-War Austria. Like Ernest Bevin in war-time England, he combined loyalty to the workers whom he represented with breadth of outlook and courageous patriotism.

Between the spring of 1946 and the summer of 1947 wages followed prices upwards in a dangerous spiral movement, though they lagged slightly behind prices and were in reality still farther behind owing to the need to purchase food on the black market. Yet the prices charged for such public utilities as gas, electricity, and transport were below the level that production costs justified. And official food prices were unreasonably low, whether judged by world levels or by the cost of producing home-grown food. The two main purposes of the First Price–Wage Agreement were to check the spiral movement, which showed signs of getting out of control, and to make an adjustment in wages to allow for the higher food prices and public utility rates that were approved at the same time.

The Agreement took effect on the 1st of August 1947. Food prices were raised on an average by 58 per cent, while the rise in public utility rates varied from 50 to over 100 per cent. Wage and salary increases varied considerably between different categories. But, on the whole, salaried employees obtained less than wage-earners, and skilled workers less than unskilled; that is to say, the poorer paid received the greater proportionate increases. In addition, on the 1st of August the Government decided on certain tax-relief measures for those with small incomes. This levelling tendency was a characteristic of all the Price–Wage Agreements except the last. It was justified as a protective measure, when the total supplies available to the Austrian people were scarcely sufficient to cover their basic needs. But it reduced incentive to workers to earn promotion to a higher wage category by their own efforts and became less defensible, as economic conditions improved.

By the terms of the Agreement, individual trade unions renounced their right, while it lasted, to take independent action

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435 465 to increase wages. But it was recognized that the Federation of Trade Unions could terminate the Agreement, and demand higher wages, if at any time the cost-of-living index should rise more than 10 per cent above the wage-rate index. Actually this state of affairs occurred within three months, but currency reform was then imminent, and the trade unions decided to continue the Agreement. In the end it lasted for just over a year and performed a valuable service at a critical time.

When the year was over the cost of living had risen by an additional 15 per cent, and the Government was anxious to abolish some of its food subsidies, a procedure which would have the effect of raising it still farther. There had, however, been some progress towards economic recovery, and the national income was rising. In order that wage rates should keep pace with these two tendencies, the Second Price–Wage Agreement was made in September 1948. Government subsidies for meat, milk, and fats were removed. At the same time wages and salaries were increased by 6 per cent. A flat-rate food bonus of thirty-four schillings a month was given to every employee by his employer, and a family allowance of twenty-three schillings a month was paid for every child by the State. The policy of equalizing incomes was much less marked than in the First Agreement, but the introduction of the flat-rate bonus carried the levelling process one step farther.

The Third Price–Wage Agreement of May 1949 was due to the danger of a serious budget deficit. It was a much more complicated measure than the first two and involved the introduction of additional taxes and of an important piece of social legislation.

Railway and tram fares, postal charges and the cost of gas and electricity were all increased. Social insurance contributions were raised and higher taxes imposed on income, capital, and purchases. Government subsidies on coal, potatoes, and grain were abolished.

[745] To gild the pill as far as possible and offset in some measure the rise in living costs a series of concessions were made. An adequate system of old-age pensions for workers was introduced.

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duced. In place of the food bonus a flat-rate increase in wages and salaries of thirty groschen an hour or sixty schillings a month was introduced, on top of which there was to be a further 4½ per cent rise. Children's allowances were to be raised to thirty-seven schillings a month. The combined effects of the increased taxes and the various concessions, on this occasion, were strongly levelling in tendency. Medium incomes were particularly hard hit, and in some cases net incomes were actually reduced at a time when the cost of living went up by at least 14 per cent. But nobody came off very well. Even in the case of the average worker's family the net rise in wages was little more than half the percentage increase in the cost of living.

The comprehensive nature of this Agreement and the fact that it was the third in three years suggested the danger that it was a device to which the Government might resort to solve all its financial problems. Certainly at this stage the economic disadvantages of the system began to outweigh the advantages. The Agreements regulated, but did not check, the inflationary process, and producers and consumers now began to reckon on rising prices. The habit of saving, which heavy taxation had already made almost impossible, was thus positively discouraged.

For a short period during the first half of 1950 prices began to fall, but with the outbreak of the Korean War in June rising prices again became a problem. There were two other reasons for the Fourth Price–Wage Agreement, which was approved in September 1950. In preparation for the end of Marshall Aid in 1952 the Economic Co-operation Administration wanted to remove the ERP subsidies on Austrian imports. Secondly, the farmers justifiably demanded that a higher price should be fixed for bread-grains, which were being sold at two and a half times the pre-War price, although the cost-of-living index was nearly five times as high as in 1938. The demand was not popular, as the farmers on the whole had suffered a good deal less than other sections of the community. But unless some adjustment were made there was no hope of increasing home

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production of bread-grain, and the farmers would continue to feed it to their animals.

The Agreement came into force on the 1st of October. ERP subsidies were reduced by more than a half, and higher prices were fixed for wheat, rye, and sugar-beet. To compensate for the increased cost of living, all wages and salaries were raised by 10 per cent, with a minimum rise of 100 schillings a month for the lower categories; pensioners received an extra fifty schillings a month and children's allowances went up to sixty schillings. This time special provisions were again made for the lowest-income groups, and it was intended that the main burden should fall on industry and the State.

The fifth and final Price–Wage Agreement was made in July 1951 and was one of the most comprehensive of the series.

In the first place, it carried a stage farther the programme of the previous Agreement. The new prices fixed for agricultural produce in 1950 were the result of a compromise and still did not prevent farmers from using bread-grains as feeding-stuff. Increases were approved in the prices of wheat, rye, and milk, and these in turn led to a rise in the cost of butter, cheese, and flour. ERP subsidies on imports were removed altogether. One of the general results of the Price–Wage Agreements had been to bring Austrian prices nearer to world price-levels. This process was not yet complete, but in future such subsidies as were retained were borne by the Austrian budget and were therefore in no danger of being taken for granted by the Government.

The Agreement raised the rates charged by most public utilities, including railway and tram fares, postal and telephone charges. Social insurance contributions were also increased.

As compensation for the higher cost of living, wages were raised by 10 per cent, with a minimum rise of 140 schillings a month. Children's allowances went up to 105 schillings, and pension rates were increased.

The slight levelling tendency of these adjustments was more than offset on this occasion by certain provisions of the Agreement, which attempted to restore in some measure the former

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differentiation between wages and salaries that previous Agreements had progressively diminished. The increase rate for salaries at 12 per cent was slightly higher than that for wages. Furthermore, something was at last done for the long-suffering class of administrative Civil Servants, whose vital contribution to Austrian recovery had so far been rewarded only by measures discriminating against them. Their salaries were raised by rates varying from 28 to 58 per cent, with the highest increases going to the senior officers. But it must be remembered that these gross increases would be considerably reduced, especially at the higher levels, after taxation had been deducted.

All the Price–Wage Agreements had one thing in common: they tried to redistribute an inadequate national income during a period of inflation and at the same time give rise to a minimum of discontent. But the fact remained that there was not enough to go round, even judged by the low standards of the difficult years between 1918 and 1945. Each of the Agreements achieved something of value, especially the first two, but each was a kind of conjuring trick in which the Government tried to make everyone happy when the conditions for material satisfaction were absent. The trick was never more than temporarily successful, and it grew stale with repetition. Furthermore, the audience, who had no alternative but to watch, began to take precautionary measures that progressively reduced the conjurer's chance of a successful performance.

This weakness became unmistakably clear during the months that followed the Fifth Agreement. The increase in salary and wage rates very soon led to an alarming rise in prices at a time when world prices had become comparatively steady. Between the outbreak of the Korean War and November 1951 the cost-of-living index in Austria rose by about 50 per cent, compared with about 11 per cent in England and Germany, 9 per cent in the United States, and 7 per cent in Switzerland. In fact the attempt made in the Fifth Price–Wage Agreement to combine the removal of subsidies with raising incomes all round simply did not make sense. The higher wages and salaries soon led to a further rise in prices, and within a few

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465 435 months the real incomes of most Austrians were slightly lower than they had been before the Agreement. Such a development was the inevitable result of the abolition of foreign subsidies, and no amount of conjuring could prevent it. The Agreement did, however, have the harmful effect on Austrian exports that has already been described and that could have been avoided.

This situation was part of the background against which many Austrians decided that the time had come for the Government to adopt a new economic policy and against which the new Ministers of Trade, Finance, and Agriculture took office. The only way for Austria to raise her standards of living, now that foreign aid was coming to an end, was to produce more and strengthen the competitive power of Austrian goods in world markets by increasing productivity.

Yet a final judgement on the Price–Wage Agreements cannot be reached if they are regarded from an economic standpoint only. Their social and political consequences were of no less importance.

On Austrian society as a whole the Agreements had both good and bad effects. Their general tendency to equalize incomes by a levelling-up process was reasonable in the circumstances. At a time of desperate national shortage something had to be done to ensure that the barest needs of the lowest-income groups were satisfied. So far as organized workers were concerned, this result was achieved. But there were other poorly paid categories whose needs were largely or entirely neglected, such as young professional men and women and retired civil servants with small pensions. In December 1948, after the first two Agreements, the incomes of unskilled industrial workers had risen by 350 per cent since April 1945, while the figures for retired civil servants varied between 51 and 114 per cent. These anomalies, together with the injustices resulting from the currency laws, were not only wrong in themselves but, on a long view, constituted a threat to the whole structure of Austrian society.

The political results of the Agreements can be assessed more

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decisively. With all their faults, they ensured the smooth transition of the economy through an exceedingly difficult period. Production and the slow, laborious process of recovery were not held up by strikes. Nor were the opponents of true democracy in Austria given any encouragement to hope that Austrian workers would turn to totalitarian solutions through desperation. The relationship maintained by the Agreements between the cost-of-living index and the wage-rate index was a fiction, because basic necessities could not all be bought at the official prices on which the cost-of-living index was based. But in the circumstances it was a necessary fiction, and the workers were at least justified in their belief that the Government, the employers, and the trade unions were working together to achieve the justest solution possible. Perhaps most important of all, the Agreements were made possible owing to a sustained joint effort between Right and Left, between trade unions and employers, which was in marked contrast to the bitter hostility of pre-War years and was an educative experience of incalculable importance for the political future of the country.

INTRODUCTION

121 In my capacity as Foreign Consultant to the Library of Congress, I attempted to provide in this study a report on Austria's postwar economic problems accompanied by a short survey of the Austrian economic theory and related literature.

The survey deals with the reconstruction of Austria in the period from 1945 until 1952, and the major economic elements and features sponsoring the reconsolidation of the country are considered. 647 The ideological reflections elaborated therein are the result of those basic decisions which had been shaped within the scope of the Ministerial Committee for Economic Questions, which is a sub-committee of the Federal Austrian Government. The Ministerial Committee for Economic Questions is a joint bipartisan committee consisting of representatives of the Austrian People's Party and of the Socialist Party of Austria and functions in accordance with the constitutional rules of the Austrian Federal Government. Consequently, resolutions made by it require in each case unanimous vote of its members. Built up on this fundamental basis are the big investment programs of the Austrian Federal Government, which have been carried through during the last years, particularly after the ERP Program started. These programs are set up by the ERP Central Office of the Federal Chancellory in permanent consultation with the competent Ministerial Departments and the interested parties of industry, trade and commerce before a definite decision is taken by the Ministerial Committee for Economic Questions, whence they are reforwarded to the respective sections of the ECA Service.

465 As regards the five agreements about wages 435 and prices reached in the years from August 1947, 652 they were negotiated and passed as a result of common deliberations between the various interested economic associations (Federal Chamber of Industrial Activities, the Chamber of Agriculture, Labor and Trade Union), whereby, in this sector which is so important to the whole economy of the country, a middle line was maintained and the political interests coordinated as far as possible. In this connection it might be considered that all political parties agree in the view that the real wages and salaries of the workers and employees should be maintained, thus

435 preventing a disastrous decline in the buying power
465 of the broad classes of the population. The unavoid-
652 able adjustment of certain distortions in prices as well as the entire stabilization of wages and prices was undertaken on the basis of the economic, budgetary and credit policy. This applied also to the coordination of prices of specified agrarian products which, in the general development, have to a large extent remained below an adequate level. These adjustments were
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652 intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment program without intensifying inflation. The promotion of capital accumulation, thereby encouraging the influx of new savings capital to the banks and institutions, and the systematic consolidation of capital reserves of the insurance companies and of the social insurance institutions will, particularly in Austria, gain special importance in the coming years. As a consequence of the elimination of the counterpart funds and of the relative slow reflux of the means invested, resulting in limited possibilities of rediscount with the National Bank, the necessarily long-postponed replacement of the long-term and expensive bank credit to the capital investment market has been initiated. Expressed in other words this means that the reconstruction of the capital basis of economy, by opening the cheaper sources of financing offered by the capital market, should facilitate new short and middle-term credits and consolidate long-term credits which had previously been granted (especially investment and reconstruction credits). It should also contribute to an improved competition of Austrian products on the world markets through an adequate reduction of one of the chief factors of the basic cost price, i.e., credit procurement.

All measures of an economic-political nature which are taken however are not applied in a purely dogmatic way. They are effected within the ideology of the two big political parties of Austria and thus of the Federal Government which is sustained by the coalition in power. It might be explained that the economic political measures described in the following survey are approved on principle by both of the leading political parties, though it may be that they differ somewhat as to the means and methods of reaching determined aims of political economy.

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433 The problem of increasing economic productiveness receives particular attention from the Austrian Federal Government and the Austrian Productivity Center. Labor and management are equally represented in this

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		Million Schillings
I. Proceeds of sales		449.1
II. Charged to special account:		
a) Released for monetary purposes	75.0	
b) Released for the financing of the Austrian investment program	363.1	
c) Other releases	3.6	441.7
III. Balance of the special account (ECA account)		7.4

In carrying out the program the Austrian Federal Government, upon request of the ECA Mission, is required to deposit to a special account (Post I) the counter value of ECA dollar expenditures at the prevailing rate of exchange. This deposit is made by the Austrian National Bank for the account of the Austrian Federal Government. The Austrian National Bank, which credits the deposit to a special account of the Federal Ministry of Finance (Post II), later receives reimbursement upon receipt of sales proceeds. However, since some of the imported commodities are sold at cheaper price levels than prevailing domestic market prices the amounts thus deposited to the proceeds account (Post II) are insufficient to reimburse the Austrian National Bank for its advance to the Austrian Federal Government (Post I). Furthermore, since the imports and the sales of procured commodities never occur simultaneously (time-lag), the deposited sales-proceeds usually amount to less than the counter values. The difference (Post II b) between the original Government deposits (Post I) and the sales proceeds (Post II) therefore represents partly a subsidy (price gap or ERP subsidy) and partly an advance (time-lag deposits) against later proceeds deposits. Although the advances are being repaid currently and no advanced amounts will be outstanding shortly after termination of the ERP, this will not be the case with regard to price-gap amounts. The latter represent Government subsidies advanced by the Austrian National Bank (covered by Federal Bonds). The financing of the Austrian National Bank cannot result in inflationary tendencies since the amounts, blocked in the counterpart account, are not considered in release provisions. Therefore, not being released, they do not return to circulation. At the termination of ERP it will become necessary to stipulate provisions covering the

457 652 created a new situation. As a result of this devaluation process, the Federal Government, in November 1949, decreed a reorganization of the foreign exchange market. This was intended to be the first step towards the establishment of a uniform exchange rate system. The official rate of exchange, henceforth called the basic rate, was increased from 10 to 14.40 schillings per 1 U. S. dollar (in accordance with the devaluation of the English Pound Sterling). At the same time a variable premium rate of exchange, presently fixed at 26 schillings to 1 U. S. dollar, was established. Exporters were required to give up 40 per cent of their foreign exchange proceeds at the basic rate. The remainder they could retain for payment of their imports within a period of 60 days or could offer to the Austrian National Bank at the premium rate. Goods to be imported were classified into three groups. Those listed in schedule A were imported at the basic rate of exchange, those listed in schedule B at a mixed rate (21.36) and those appearing in schedule C at the premium rate. Goods imported within the scope of the ERP, commodities to be disposed at prevailing cheaper price levels, were grouped with the mixed rate. Service charges and capital transactions were dealt in at the premium rate.

457 435 465 652 There remained, however, a conspicuous discrepancy in the import exchange rates which introduced disturbances into the cost-price structure of the economy, and these in turn influenced living costs and wages.

[649] [654] Upon recommendation of the International Monetary Fund, a unification of the exchange rates had been considered at the time the multiple exchange rate system was promulgated, i.e., during November 1949. At the same time, and in order to ease budgetary strains, the system of subsidizing essential commodities like food, coal and agricultural necessities (which up to now had been sold at cheaper levels because of the ERP imports or imports financed under the basic rate of exchange) had to be substantially curtailed. Since any increase in the prices of grains and grain products was likely to impair living costs and wages, difficult situations arose. As a result of the changed price and wage relations, certain price and wage adjustments as well as a partial reduction of subsidies (covering sugar, coal and agricultural products) had already been promulgated in 1947, 1948 and 1949. After due consideration between political representatives and economic interests, a fourth price and wage agreement was enacted on September 27, 1950.

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

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The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

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435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

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465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities, is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Reaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

aid which was granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950, to June 30, 1951--8.81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position. This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18.2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted: 652 [439]

1. The law concerning the creation of an economic directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government, it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy. 656

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically; [433]

652 4. An amendment to the foodstuffs control law (Lebensmittelbewirtschaftungsgesetz) which aims at assuring a basic amount of food for the people;

5. The foreign trade law (Aussenhandelsverkehresgesetz) aiming at providing a legal groundwork for the coordination of the procedures and decisions of the Economic Directorate with the activities of those officers who were entrusted with handling problems of foreign trade.

Moreover, it became necessary (as was already the case in other countries) to take certain measures in money and credit policy against the progression of inflationary forces.

652 One of the first results of internal measures was an agreement reached between the Austrian Nationalbank and the Association of Austrian Banks and Bankers on March 16, 1951, concerning the procedures for a qualitative selection of credits. Its aim was to prevent the extension of credits which could not be reasonably justified. A new definition of the economically non-justifiable credits stipulated a sharper selection of the individual applications. In extension of this agreement, another agreement was reached between the Ministry of Finance and the abovementioned group of credit institutions, sanctioned also by the Austrian Nationalbank, as of April 6, 1951. A quantitative control of credits was provided exceeding the items of the former agreement. The credit institutions which made this agreement accordingly obligated themselves to maintain, for the beginning, a liquid reserve of 25 per cent in foreign means. An increase of this reserve to 30 per cent toward the end of 1951 was anticipated, with the condition that then 10 per cent liquid means of first grade and 20 per cent of such means of the second grade must be kept on hand. (Liquid means of the first grade are: cash, deposits at the Austrian Nationalbank and at the Oesterreichisches Postsparkassenamt. Liquid means of the second grade are: negotiable federal savings bonds at the Austrian Nationalbank, checks, payable coupons, deposits which may be used as collateral at the Austrian Nationalbank, deposits payable daily at the Austrian credit institutions.)

435 After rising prices had relaxed somewhat in
652 May, prices in general rose again after June (partly seasonal). The indices of wholesale and retail prices as well as of the living cost were rising again thereby

bringing new problems of adjustment. These were solved by a new general agreement of the Chambers of Economy (in July 1951), in which the main considerations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs. Special aims of the economic policy were: 652 [435]

1. To restrict the utilization of foreign aid for consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product. [434]

2. To balance the agricultural prices which were out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product). [435]

3. To effect conditions for a new distribution of income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product). [454]

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

1. Agriculture received higher production prices for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production). [438]

2. The subsidies for the import of bread grains, fodder grains, and raw materials for fats were diminished. Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts. [654] [439]

435 656 [651] 3. The tariffs of the public corporations (Federal Railway, Posts, Tramways) as well as the prices for current were increased from 20 per cent to 100 per cent to keep pace with the prices on the world market which had increased due to increases in cost (especially the price of coal); the trend toward a deficit in the Federal Railway and public service enterprises had to be checked. In spite of these considerable increases, these price rises were only three to five times as high as the level of 1937.

[660] 4. On the basis of the newly calculated producer and import tax prices, new retailer prices were worked out; to balance this rise every receiver of gross wages received an additional income of from 10 per cent to 12 per cent per month, but at least a minimum of 140 schillings. For persons in the public service, special measures were taken on the ground of the so-called "Gehaltsüberleitungsgesetz."

[68] 5. Finally, in immediate connection with this agreement a number of taxes and duties were altered: progression of the taxes on wages and incomes; a change in the rates of the mineral tax; a change in the contributions of the employers to the balance funds for charitable relief; a change in the turnover-tax; on the grounds of the law of adjustment of social insurance of 1951, the basis of the maximum contributions to social security were changes.[2]

448 [654] The most remarkable progress within the scope of this agreement, however, was (as already mentioned) the reduction of subsidies. As is known, the individual ERP countries obligated themselves in the bilateral economic agreements (Austrian agreement, August 2, 1948) toward the USA to pay the full value of the American relief deliveries in the currency of the recipient country on a special account (counterpart accounts). These accounts should be disposed of by the individual governments in accordance with the approval of the ECA to cover, as a rule, the financing of productive investments and to support currencies. The utilization of these means for financing for consumer goods should be limited as far as possible, although this had been tolerated in the beginning to raise the general standard of living. The purpose of this limitation was not to prolong the dependence upon foreign aid which was to end toward the end of June 1952.

457 652 With regard to the necessary balancing of the balance of payments (the special measures to achieve

1 [i.e., in July, 1951. Cf. cat. 116, p. 98-99, for rationale--Analyst]
2 [sic.,--Analyst]

these aims will be discussed later), which becomes more and more urgent because of the decrease in ERP funds, means from counterpart funds for investment aims had to be released to an increasing degree. 457 652

The Austrian government declared, therefore, its readiness as early as the fourth price and wage agreement to abolish all ERP subsidies for imports. In the interest of keeping living costs at the lower level, also, certain quantities of vital goods were provided at lower prices in 1951. Besides fertilizers and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides. 652 435 439 654

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agreements as a whole, a clear success had been scored in the prevention of further increases of subsidies, in the improvement of real income of public servants. 652 434

434 pensionists and persons dependent on state relief.
652 The correction of some out-of-line prices was also effected. To achieve these results the gross income of wage earners increased by approximately 6.1 billion schillings, the tariffs by 1.5 billion schillings and the incomes of agricultural workers by 640 million schillings. A flow of money has been effected surmounting by many times the net effect of the transfers in incomes. Future regulations will provide the final easing of tensions caused by the structure of prices and wages. By the same token, the final solution of certain apparent budgetary problems (remaining subsidies) and problems of the economic policy must be postponed, especially in view of social considerations.

435 The increases of prices, wages, taxes and tariffs by the fifth price and wage agreement caused, in many respects, a considerable movement of prices even in fields other than those comprised in the agreement. The intensity of this movement, however, was diminished by the continuing high industrial production (the number of employed reached more than 2 million people in the middle of the year) and by the sinking of prices in the world markets. However, there were a number of secondary, even tertiary, reactions which could not be avoided, although these reactions raised the general level of prices as a result of increasing demands in the second half of the year.

435 The prices of raw materials, however, were
439 stable in the early summer. The wholesale trade index of the Statistisches Zentralamt sank by 0.6 per cent (from 795 to 790; based on the formula 1938 = 100) from the middle of July to the middle of August. This was caused mainly by price reductions of the most important foreign raw materials (wool, rubber, tin), while domestic raw materials and semi-manufacturers (leather, petroleum, gasoline, building materials, aluminum and cellulose, among others) brought higher prices. This backward development led to a rise of domestic prices of raw materials and semi-manufactures so that they approximated the highly increased prices in the world market after the outbreak of the Korean conflict. Special problems in the development of foreign trade became acute because the prices of domestic finished goods had to adjusted to the levels of world market prices.

A comparison of the Nationalbank's position as of the key-dates (December 31, 1950 and 1951) gives the following picture. 652

	1951	1950	† or -
	(In millions of schillings)		
ASSETS			
Gold	51.1	50.3	† 0.6
Foreign currencies	582.5	449.3	† 133.2
Checks	1,709.8	809.2	† 900.6
Teilmünzen (coins)	2.3	2.8	- 0.3
Reconstruction credits	4,041.9	2,227.0	†1,814.9
Bonds (under par. 27 of the Währungsschutzgesetz)	807.0	749.3	† 57.7
Bonds (under par. 2, item 1, of the amendment of the Notenbanküberleitungsgesetz)	1,402.7	1,200.2	† 202.3
Loans	34.5	34.7	- 0.2
Money debts of the state	2,029.9	4,123.9	-2,094.0
DEBITS			
Circulation of bank-notes	8,032.0	6,348.9	†1,683.1
Free banking accounts of credit institutions	539.5	428.6	† 110.9
Others	580.6	987.7	- 407.1
Closed banking accounts of credit institutions	40.3	40.3	--
Others	1,469.3	1,841.4	- 372.1

Finally, one can state that in the course of the year 1951 the total volume of the means of payments increased by 20 per cent, the circulation of bank notes alone by about 26.5 per cent. At the same time there was an increase of the general level of prices by about 40 per cent. [436] [435]

The adjustments and reactions of the last year which are shown in the first half of the year in an extension of and in the last quarter of the year in a contraction of the credit volume are, however, only one side of a total economic problem. The problem itself is characterized by achieving a balance of payments.

439 If one examines the structure of these re-
457 sults more closely, one will see immediately that the
652 deficit of the trade balance is by far the biggest burden to the total balance, which is not covered at present by the moderate assets of tourist traffic and the surplus of the transit traffic, plus other receipts from services. This deficit was covered up to the present from ERP funds, which must be replaced in the present year (at least in the second half of the year) by other methods if the import programs are not to be seriously restricted. Any restriction, however, would be most decisive. If reduction of the imports of foodstuffs were undertaken it would result in a grievous lowering of the general standard of living; if one attempts a restriction of raw material imports the plants and factories would have their operation curtailed and partial unemployment would result; if one lowers the import of coal and fuel the general tempo of production will suffer with all the consequences this would have upon the social and economic life of the country.

435 It is clear that none of these alternatives
439 would be acceptable since normal development must be to the interest of Austria as well as the whole of Europe. But where is one to find an acceptable solution? An analysis of the figures of foreign trade gives the following picture:

To begin with, the table shows the development of foreign trade in the last two years as compared to the last year before the war. To make the figures of 1937 comparable with those of 1950 and 1951 (which are inflated owing to currency devaluation), the amounts in new schillings were reduced to the previous schillings value by dividing them by the index of wholesale prices (1950: 553 and 1951: 742).

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	Quantity in Millions of Centners		Value in Millions of Schillings
1937			
Imports	6.2		1,453.7
Exports	3.8		1,217.0
Deficit			237.0
1950			
Imports	8.5	New Schillings	9,200.0
		Old Schillings	1,664.0
Exports	3.5	New Schillings	6,513.0
		Old Schillings	1,178.0
Deficit		New Schillings	2,687.0
		Old Schillings	486.0
1951			
Imports	9.2	New Schillings	14,027.0
		Old Schillings	1,890.0
Exports	3.8	New Schillings	9,635.0
		Old Schillings	1,298.0
Deficit		New Schillings	4,392.0
		Old Schillings	592.0

A comparison shows that the quantity of imports (1951) increased by about 50 per cent as compared to the prewar period, while the value (reduced to old schillings) has increased only from 1,452.7 to 1,890.0 old schillings, i.e., by 30 per cent. Exports reached their prewar volume in quantity (3.8 million centners) but in value in old schillings the increase amounts to only 6.7 per cent (from 1,217.0 to 1,298.0 million schillings).

The fact that the value of imports lags behind the quantity of imports proves that the structure of imports underwent certain alterations. As compared to the prewar era, more goods with a cheaper rate per centner were imported, excluding some mass goods such as coal and bread grains, the dollar-per-centner price of which has doubled as against 1937. Moreover, the development of exports proves that by 1951 Austria had already reached the prewar level in quantity as well as in value. There is, therefore, no blame to be attached for not reaching the aim of the total capacity because the total deficit of 237 million schillings (1937) rose to 592 million old schillings in 1951. The reasons for this development, which tends toward a deficit, lie in large measure in the above-mentioned

439 deterioration of the exchange rate between imports
435 and exports (excluding the far larger import of investment goods). (The investments quota amounted to 6 per cent before the war and rose to 21 per cent of the gross national income in 1951. The comparatively high quota could be maintained, of course, only with the help of ERP funds.) These circumstances also caused difficulties in bigger and economically more powerful states because the real value of foreign aid suffered remarkably by these price developments since the middle of 1950.

439 Normalization of the trade balance must be
652 achieved in regard to both imports and exports. This
454 will be achieved through:

1) The increasing effect of the investments made within the scope of the Austrian Investment Program 1950-52 and by the revised investment policy. These are short-term investments which will be cheaper and more exportable by raising exports or, indirectly, by cheapening unfinished goods. Among these import saving investments only such investments shall be supported (excluding imports for agriculture) as will be justifiable within the scope of a liberalized foreign trade and in the framework of the international distribution of labor. In spite of the basic continuation of big industrial projects (in view of the end of ERP aid and counterpart funds it will not be possible to afford bigger amounts for big projects which will show their effect only after a long period because of financial and credit policy), the necessary shift in the center of gravity toward the typical export industries will remain a characteristic feature (the export industries are craft enterprises and the foreign tourist traffic, both of them real foreign currency earners). In this connection it should be remarked that part of the investments which have been carried out through public investment programs have not yet matured. Owing to the comparatively late start of real investments in Austria as compared to other ERP countries (1950), they will be fully effective only as late as 1954-55.

439 2) Exhausting all possibilities of the existing and future opportunities in the trade policy. Thus, for instance, the new German liberalization together with the new trade agreement opens the German export area to Austrian production so that, with an adequate support, a big part of the Austrian production capacity will be fully utilized. Also Belgium lowered the

457 foreign aid. While in 1951 about 200 million
652 dollars was available, this sum will be approximately 100 million dollars for 1952; the schilling counter value to foreign aid, therefore, will decline from 4.4 billion schillings to presumably 2.1
● [435] billion schillings. Moreover, as the prices at the end of 1951 were higher by 12 per cent than the average for 1951, there will be about 2.7 billion schillings less out of foreign aid funds for investments than in 1951.) In addition, the budget is burdened by a number of price supports, the abolition of which will not be possible to a full extent under the present conditions. Immediate reactions on the prices for foodstuffs and new rises in wages would be the consequence. The policy of supporting prices must not be omitted when the system of subsidies is altered. [Since the fifth Wage and Price Agreement of July 1951 the existing method of financing important consumption goods was taken over from counterpart funds by the budget. Thus, there are still considerable budgetary expenditures under this title. They amount per year to about 40 million schillings for the support of domestic bread-grain prices, 366.5 million schillings for foreign bread-grains, 555.75 million schillings for fodder, 110 million schillings for fertilizers and 135 million schillings for raw materials of fats needed by the margarine industry. The term for supporting the prices of domestic bread grains (15 groschen per kilo) already has expired. The remaining subsidies will expire with the end of June. Discussions with the aim of continuing these subsidies are not yet finished. They tend, above all, to stimulate production by adequate prices.]

652 Already in the preceding year the stabili-
[453] zation of the money value was prepared to a considerable extent. Measures of this type were: the introduction of the quantitative and qualitative control of credits; the increase of the bank rate from 3 1/2
[435] per cent to 5 per cent; and the lowering of prices, started by private industry of its own volition--this latter measure applying to about 80 categories of goods. This materially and psychologically important premise of an organic policy for stabilization must be supplemented by an adequate budgetary policy. It cannot be denied that the measures which were taken in the preceding year had already brought about signifi-
454 cant results. The savings increased considerably in
652 the first two months of the present year; they rose from 2,275.1 million schillings (checking account deposits 8,898.7 million) to 2,619.5 million schillings

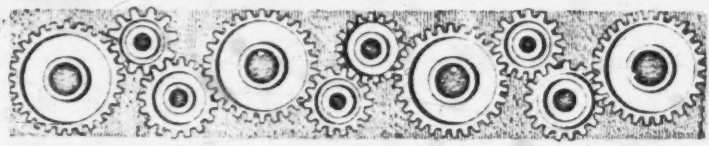
The increase in production resulting from all these measures was bound to increase the difficulties of marketing during the slump. In pig-raising it at last became necessary to resort to curtailment of output (prohibition of pig-raising for the market). An attempt was also made to increase the costs of cattle-rearing and thus limit the supply by raising the so-calledli cence fee for the import of fodder.

As a stimulant of milk production, a milk-equalisation fund was created to content with sales difficulties, through which the means for the export of dairy products at prices below production costs were raised by the imposition of a tax on fresh milk.

Thus it came about that in the 1930s Austrian products such as standard butter, high grades of cheese and cream could compete successfully on the markets with the dairy products of such leading countries as Denmark, Switzerland and Holland. The western alpine provinces especially profited by this arrangement, but at the same time a great demand was created for home milk products throughout the whole country. Gradually, in the Danube City which has been known from Roman times for its enjoyment of sweet wines, depôts were established where milk could be drunk in the busy streets and on public squares, giving the City a new attraction.

The doubtless necessary encouragement of dairy farming, just at this time, however, brought with it new problems which were aggravated by the effect of the world economic depression. The situation was made worse by the fact that the prices for agricultural and dairy products had sunk far lower than the prices for technical aids to agriculture. The discrepancy between these two sets of prices became still greater from 1933 to 1937. The comparative fixity of wages and the increase in public debts accompanied by sinking prices were not inconsiderable factors in bringing about general deterioration.

Problems of agrarian policy were bound to have a reaction on industrial-commercial economics. Austrian products had to compete with those of countries which had the advantage of considerably lower agricultural prices and thus of a lower cost of living. For a land such as Austria, which in the main can only secure the goods she needs through the export of her own products, it is essential that wages, an important factor in costs, should not be affected too unfavourably by the high price of grain.



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Apart from the necessity for the existence of agriculture, the chief problem is to find a reasonable compromise between the legitimate aims of agriculture and the need of Austrian trade and industry to export at competive prices. This end can only be attained by the pursuit of a suitable economic policy and by an increase of agricultural productive capacity through measures of rationalisation, the discouragement of the drift to the towns and the setting up of a suitable system of administration.

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The period between the two World Wars was too short to allow of full success on these lines, especially in view of the long duration of the world slump.

For the same reasons the efforts to develop the industrial-commercial system along new lines could not be brought to full fruition; attempts to maintain the status quo frequently held up progress. In times of international trade shrinkage any change of policy is not only exceptionally difficult but sometimes also a considerable risk.

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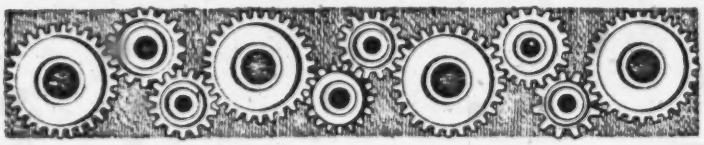
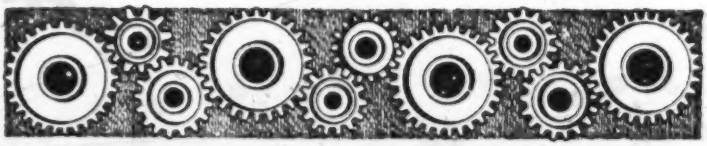
In spite of this Austria made repeated attempts in the course of the years to develop plans for economic rapprochement with neighbouring States. These efforts, however, were doomed to failure through the existence of most-favoured nation clauses and political obstacles. Already in May 1931, conferences were being held in Rome concerning the possibility of increasing trade connections between Italy, Austria and Hungary. From this time onward the preference

THE BANKING SYSTEM IN AUSTRIA.

The structure and economic activities of the Austrian banks since their foundation round about the middle of the last century have followed a different course to that of the credit institutes of the West. For while industrial progress in the latter was based on the active participation of a large circle of interested persons and a well-organised capital market, the development of the far-flung territories of the old Austro-Hungarian Monarchy was left almost entirely to the initiative of the Vienna banks, at first in connection with mechanised transport, and later in connection with industry. Thus, in contrast to the Western type of pure deposit banks, they became universal banks with much more comprehensive functions. Apart from receiving deposits, they gave credit of all kinds ranging from discount credit to long term mortgage credit, dealt in shares and put through stock exchange deals as well as carrying on note emission and syndicate business.

The end of the Monarchy in the year 1918 made it necessary to adapt the Austrian banking system to new conditions. How close the connections of the Vienna banking institutions were with the territories of the old Empire which have since separated from Austria is shown by the fact that of the 127 branches of the Vienna banks which existed under the old Monarchy, not even 10 per cent fell to the new Austria and that, for instance, the Creditanstalt had 16, the Anglo-





bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1934 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crises of trade and finance, so that certain grave reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive those troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal

system in foreign trade became the guiding principle, the narrowing down of inter-state trade relations being shortly afterwards still more strongly emphasized through currency restrictions and the clearing agreements connected herewith. The currency devaluations of the gold-standard countries towards the end of the year 1936 created new difficulties for Austrian foreign trade. As devaluation was out of the question and an export subsidy was not considered to be a suitable political-economic instrument, the only remaining alternative was to lower the costs of production. The difficulties of such a course have been proved by practical experience in all countries, as the questions of fixed prices and wages combine to form an insurmountable obstacle to such a development.

Nevertheless Austria still succeeded in linking up with the world boom which began in 1935—1936. In the year 1937 her figures of production were 6 per cent higher than those of the last characteristic boom year of 1929. The tourist trade developed exceptionally favourably, despite the "1000 mark limit" imposed by Germany, and the volume of foreign trade was constantly on the increase.

In view of the heavy burden of debt which the country had to assume after 1918, of the increasingly protectionist tendencies throughout the whole of Europe, especially among Austria's immediate neighbours and considering the severe and long-continued world trade depression, as well as the crises of international currency,

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Vienna, for Tyrol, for Salzburg, for instance; but the cohesive force of a national conception was largely missing. Moreover, the provinces feared that an unproductive Vienna would hang like a deadweight on their economy and some of the western provinces tried to break away and to join Germany or Switzerland. In addition, the small but active Pan-German minority [5] tried to use the defeatism of the major political parties to further their own imperialist aims of a Greater Germany.

Perhaps inflation was unavoidable by the time the war ended. After all, inflations swept practically all central and eastern Europe. But the course of inflation in Austria was greatly influenced by the weakness of a government which did not believe in its own and its people's strength. This is clearly shown by the speech made by the Christian Socialist Chancellor Seipel before the Council of the League of Nations in 1922, when he tried to obtain financial help for Austria. The collapse of Austria, he said, would be "a serious blow to the Treaties of Peace, for it would afford a proof that the new Austria which they created is incapable of existence, either now or in the future". [6]

What, then, was the main sequence of the economic events of the period of inflation, and what was its significance for the further development of Austria's economy? [7]

The roots of the post-war inflation went back to the war years. The strong inflationary pressure inherited from the past would have been difficult to restrain whatever the post-war setting. Taking July, 1914, as 1, the circulation of banknotes in the Austrian-Hungarian Monarchy had risen to 13·17 in November, 1918, and the cost-of-living [8] to 16·40 in the same month.

The financial situation did not ease with the ending of hostilities. The delay in the arrival of relief supplies and

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

458 the disruption of production and foreign trade caused a
435 continued and increasing shortage of goods. Though rationing of essentials was not immediately abolished, war-time controls were relaxed and the rise in prices was accelerated. This rise in prices, together with the dearth of so many industrial goods, induced many peasants to resort to a system of barter. This further diminished the flow of goods to the market, and with it the value of money.

At the same time, the socialist revolutions in neighbouring Hungary and Bavaria and the revolutionary tendencies among the Austrian people led to a mass transfer of capital to other countries. The various controls of the post-war period, designed to prevent capital movements and to preserve the precious foreign exchange for essential imports, were largely ineffective and the conspiracy against the Crown (the Austrian currency unit at that time) continued openly and in the numerous black markets. Consequently, the dollar exchange which—owing to the blockade and the practical cessation of international trade—had risen from 4·95 Crowns in July, 1914, to only 14·33 Crowns in November, 1918, began to soar rapidly (see the table on p. 25). With the dependence on imported raw materials and foodstuffs this quickly led to
652 further price increases. The governments of the day
458 should of course have adopted drastic measures to keep
435 the inflationary pressure in check. In fact, their policy intensified the inflation. Expenditure continued to run at a high level. Food subsidies, for instance, had to be continued in view of the rise in food prices. These subsidies were often quite considerable; in December, 1921, for instance, they accounted for more than half the budget deficit. Then there was the large item of civil service salaries. Not only did Vienna inherit the central adminis-

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

trative staff of a 50 million empire—and a very bureaucratic empire at that—but this staff had been considerably swollen in war time and was further enlarged by the absorption of all those Austrian officials who after the war returned from their posts in the "Succession States". To reduce this number of officials was one of the problems of readjustment which Austria had to solve; and in fact a drastic reduction was carried out later. But little was done in the first post-war period and salaries—inadequate as they were with the increasing depreciation of the Crown—were a heavy drag on the Exchequer. In other lines, too, expenditure continued to run in an unplanned and uncoordinated manner. This was perhaps an effect as much as a cause of the inflation; but it was also symptomatic of the Government's fatalism; for they considered all this as the natural expression of Austria's doom.

The Government's weakness also showed itself on the revenue side. Expenditure, however carefully planned, is bound to be high in any post-war period. The social and economic upheavals of modern wars call for a high degree of State control and interference so as to facilitate an orderly return to a peace-time economy. But if inflation is to be avoided this high level of expenditure must be matched by an equally high level of revenue—at any rate under conditions of more or less full employment. This, however, the governments completely failed to achieve. The years 1919 to 1922 were years of continuous budget deficits, as is shown by the table on page 24.

The failure of revenue to come anywhere near expenditure was due to a number of reasons. First, the rapid depreciation of the crown implied that every time lag between assessment and payment caused a reduction in the real value of the tax. This opened the way to tax evasion on a grand scale; for even the incidence of stiffer nominal rates

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Budgets	Receipts	Expenditure (Mill. of Crowns)	Deficit	Deficit in per cent of Expenditure
Jan. 1– June 30, 1919	1,339	4,034	2,704	67
July 1, 1919– June 30, 1920	6,295	16,873	10,579	63
July 1, 1920– June 30, 1921	29,483	70,601	41,117	58
July 1– Dec. 31, 1921	24,075	49,496	25,421	51
Jan. 1– Dec. 31, 1922	209,763	347,533	137,770	40

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of taxation could be avoided by simply delaying payment for a little while. It was not until much later that the Government introduced "tax units" of a stable value to put a stop to this. Secondly, stronger measures, such as a capital levy and a compulsory loan, which were intended to bring some relief in this extraordinary emergency, were greatly watered down through endless delay and the strong pressure from vested interest. By the time they were finally introduced they were in fact quite ineffective. Thirdly, the Government was slow in adjusting the prices of State-owned enterprises to the rapidly rising price level, and considerable losses were incurred as a result.

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Expenditure thus rose with rising prices while receipts lagged behind. The gap had to be filled. A loan was out of the question for nobody was willing to lend money which would probably be worthless by the time of repayment. So the printing press, which had proved a convenient servant in war-time, had to continue its work. More and more notes were printed, prices went up and with it the State's expenditure and deficit. The vicious spiral was set in motion.

The following table indicates the course of the inflation.

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THE BIRTH OF A NEW REPUBLIC

INDEX OF NOTE CIRCULATION, PRICE INDEX, AND DOLLAR EXCHANGE RATE, 1919–22

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	1919			1920		
	Index of Note Circn.	Price Index	Dollar Rate in Vienna	Index of Note Circn.	Price Index	Dollar Rate in Vienna
	1914 = 1					
January	—	28·37	16·17	24·20	49·22	176
February	—	—	17·91	26·55	—	268
March	1·66	—	21·84	28·97	—	250
April	9·57	—	26·65	30·84	58·42	200
May	11·18	—	23·25	30·14	—	204
June	13·07	—	27·00	31·98	—	149
July	15·15	31·02	31·13	34·42	63·76	145
August	16·83	—	38·00	37·29	—	181
September	18·52	—	46·83	40·67	—	241
October	19·71	—	69·58	45·44	69·60	278
November	21·90	—	99·50	51·04	—	426
December	22·41	—	135·00	56·92	—	533
	1921			1922		
January	61	92	676	365	830	6,875
February	70	100	716	465	980	7,725
March	77	112	730	532	989	6,750
April	84	111	655	616	1,089	7,625
May	89	119	604	690	1,364	8,375
June	93	119	632	815	2,339	15,450
July	100	125	738	1,166	3,308	22,900
August	109	124	1,142	1,667	7,422	51,650
September	119	151	1,189	3,034	14,153	75,050
October	148	238	3,000	4,908	12,965	73,525
November	190	374	5,850	5,959	12,158	73,450
December	265	661	7,200	6,957	11,737	71,300

Source: J. van Walré de Bordes, *The Austrian Crown*, pp. 48–50, 82–3, 115–35.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

THE EFFECTS OF THE WORLD CRISIS

IMPORTS AND EXPORTS

Value in national currencies (000,000's omitted)

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		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing protectionism and her agriculture, in particular, was increasingly cut off from the world market. Home food prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

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The workers, of course, had now to pay relatively higher prices for their essential needs. On the other hand, the stability and purchasing power of another important

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AUSTRIA'S ECONOMIC DEVELOPMENT

458 section of the population was substantially preserved. Even so, to the extent that prices *did* fall, the real burden
435 of debt was increased. The smaller peasants, particularly those in the poorer mountain districts, suffered most and the Government was more than once forced to come to their assistance.

439 There can be no doubt that the growing protectionism reduced the advantages of international division of labour. But there was little choice in the circumstances. The loss of income from exports had to be replaced by home-produced income. While exports declined rapidly (until in 1933 they were only 35 per cent of the 1929 level [2]). Austria's readjustment of production allowed her to cut down imports in the same period to 35 per cent of the 1929 level. This went a long way in solving the long-standing balance of trade problem; but the way in which it was solved was hardly the ideal one. The import surplus, which had amounted to over 1,000 million schillings annually in the period preceding the depression, fell to 848 million schillings in 1930, 870 million schillings in 1931, 620 million schillings in 1932, 373 million schillings in 1933, and 296 million schillings in 1934.

453 The depression thus took its "normal" course in Austria: a fall in the national income and in production, a rise in unemployment, misery, and social tension, accompanied by frantic but unco-ordinated efforts by all governments to stop the catastrophe and to readjust the domestic economic structure. Austria travelled the same road as the rest of the world. But half-way through the crisis, in the beginning of 1931, there occurred an event which suddenly revealed, not only Austria's financial weaknesses, but those of the whole world. To this event, the breakdown of the Credit-Anstalt, we must now turn.

There were two major financial problems in Austria.

2 [Cf category 116, p. 63 -- ANALYST]